

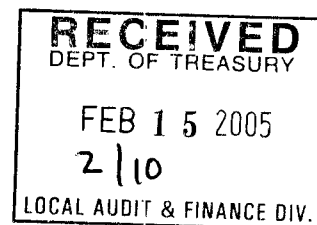


**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)



**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

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KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

Independent Auditors' Report

The Board of Directors of the
Local Development Finance Authority:

We have audited the accompanying financial statements of the governmental activities and General Fund of the City of Detroit Local Development Finance Authority (the Authority), a component unit of the City of Detroit, Michigan (the City), as of and for the years ended June 30, 2004 and 2003, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of the City of Detroit Local Development Finance Authority as of June 30, 2004 and 2003, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis and budgetary comparison information that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

KPMG LLP

December 21, 2004

**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

Statement of Net Assets and General Fund Balance Sheet

June 30, 2004

	<u>General Fund</u>	<u>Adjustments (Note 8)</u>	<u>Statement of net assets</u>
Assets:			
Cash	\$ 5,358	—	5,358
Restricted investments	28,134,743	—	28,134,743
Due from other governments	1,755,568	—	1,755,568
Total assets	<u>\$ 29,895,669</u>	<u>—</u>	<u>29,895,669</u>
Liabilities:			
Accounts payable	\$ 295,117	—	295,117
Accrued interest payable	—	819,156	819,156
Long-term liabilities:			
Bonds payable, due within one year	—	2,190,000	2,190,000
Bonds payable, due after one year	—	86,210,000	86,210,000
Long-term payable	—	3,001,533	3,001,533
Total liabilities	<u>295,117</u>	<u>92,220,689</u>	<u>92,515,806</u>
Fund balance/net assets:			
Fund balance:			
Reserved for debt service	23,617,601	(23,617,601)	—
Reserved for grant projects	5,982,951	(5,982,951)	—
Total fund balance	<u>29,600,552</u>	<u>(29,600,552)</u>	<u>—</u>
Total liabilities and fund balance	<u>\$ 29,895,669</u>		
Net assets:			
Restricted for debt service		\$ 22,798,445	22,798,445
Restricted for grant projects		5,982,951	5,982,951
Unrestricted (accumulated deficit)		(91,401,533)	(91,401,533)
Total net assets		<u>\$ (62,620,137)</u>	<u>(62,620,137)</u>

See accompanying notes to financial statements.

**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

Statement of Net Assets and General Fund Balance Sheet

June 30, 2003

	<u>General Fund</u>	<u>Adjustments (Note 8)</u>	<u>Statement of net assets</u>
Assets:			
Restricted investments	\$ 25,600,531	—	25,600,531
Due from other governments	2,979,894	—	2,979,894
Due from primary government	3,892,364	—	3,892,364
Total assets	<u>\$ 32,472,789</u>	<u>—</u>	<u>32,472,789</u>
Liabilities:			
Accrued interest payable	\$ —	840,950	840,950
Due to other governments	4,816,894	—	4,816,894
Long-term liabilities:			
Bonds payable, due within one year	—	2,405,000	2,405,000
Bonds payable, due after one year	—	88,400,000	88,400,000
Total liabilities	<u>4,816,894</u>	<u>91,645,950</u>	<u>96,462,844</u>
Fund balance/net assets:			
Fund balance:			
Reserved for debt service	<u>27,655,895</u>	<u>(27,655,895)</u>	<u>—</u>
Total fund balance	<u>27,655,895</u>	<u>(27,655,895)</u>	<u>—</u>
Total liabilities and fund balance	<u>\$ 32,472,789</u>		
Net assets:			
Restricted for debt service		\$ 26,814,945	26,814,945
Unrestricted (accumulated deficit)		<u>(90,805,000)</u>	<u>(90,805,000)</u>
Total net assets		<u>\$ (63,990,055)</u>	<u>(63,990,055)</u>

See accompanying notes to financial statements.

**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

Statement of Activities and General Fund Revenues,
Expenditures, and Changes in Fund Balance

Year ended June 30, 2004

	<u>General Fund</u>	<u>Adjustments (Note 8)</u>	<u>Statement of activities</u>
Expenditures/expenses:			
Interest payments	\$ 5,046,802	(21,794)	5,025,008
Principal payments	2,405,000	(2,405,000)	—
Administrative charges	465,962	—	465,962
Grant expenditures	967,049	—	967,049
Construction	130,001	3,001,533	3,131,534
Property tax payment	4,923,956	—	4,923,956
Total expenditures/expenses	<u>13,938,770</u>	<u>574,739</u>	<u>14,513,509</u>
Program revenue – capital grant:			
Grant revenue	<u>6,950,000</u>	—	6,950,000
Net program expense			<u>(7,563,509)</u>
General revenues:			
Property taxes	8,438,775	—	8,438,775
Other revenue	315,822	—	315,822
Earnings on investments	178,830	—	178,830
Total general revenues	<u>8,933,427</u>	—	<u>8,933,427</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,944,657</u>	<u>(1,944,657)</u>	—
Change in net assets	—	1,369,918	1,369,918
Fund balance/net assets, beginning of year	<u>27,655,895</u>	<u>(91,645,950)</u>	<u>(63,990,055)</u>
Fund balance/net assets, end of year	<u>\$ 29,600,552</u>	<u>(92,220,689)</u>	<u>(62,620,137)</u>

See accompanying notes to financial statements.

**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

**Statement of Activities and General Fund Revenues,
Expenditures, and Changes in Fund Balance**

Year ended June 30, 2003

	<u>General Fund</u>	<u>Adjustments (Note 8)</u>	<u>Statement of activities</u>
Expenditures/expenses:			
Interest payments	\$ 5,197,468	407,830	5,605,298
Principal payments	2,680,000	(2,680,000)	—
Administrative charges	86,124	—	86,124
Total expenditures/expenses	<u>7,963,592</u>	<u>(2,272,170)</u>	<u>5,691,422</u>
General revenues:			
Property taxes	10,716,679	—	10,716,679
Earnings on investments	265,496	—	265,496
Total general revenues	<u>10,982,175</u>	<u>—</u>	<u>10,982,175</u>
Excess of revenues over expenditures	<u>3,018,583</u>	<u>(3,018,583)</u>	<u>—</u>
Change in net assets	—	5,290,753	5,290,753
Fund balance/net assets, beginning of year	<u>24,637,312</u>	<u>(93,918,120)</u>	<u>(69,280,808)</u>
Fund balance/net assets, end of year	<u>\$ 27,655,895</u>	<u>(91,645,950)</u>	<u>(63,990,055)</u>

See accompanying notes to financial statements.

**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

Notes to Financial Statements

June 30, 2004 and 2003

(1) Purpose

The City of Detroit Local Development Finance Authority (LDFA or the Authority) is a separate legal entity, and reported as a discretely presented component unit of the City of Detroit (the City), that was created on October 31, 1988 pursuant to Act 281 of the Michigan Public Acts of 1986. The creation and establishment of the LDFA was, in part, to finance the Jefferson/Conner Industrial Revitalization Project (the Project). The Project area encompasses approximately 380 acres and is located in southeast Detroit. DaimlerChrysler's Jefferson North Assembly Plant (the Plant) occupies approximately 60% of the total Project area's land area. In October 2003, the Authority entered into a Core Community Fund grant agreement with the Michigan Economic Development Corporation that includes several City improvement projects.

(2) Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, the Authority has no component units. However, the Authority is a component unit of the City of Detroit, Michigan.

(b) Basis of Presentation

The financial activities of the Authority consist only of governmental activities. For its reporting purposes, the Authority has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of the General Fund financial data to government-wide data in a separate column. A brief description of the Authority's government-wide and fund financial statements is as follows:

Government-wide Financial Statements

The government-wide statement of net assets and statement of activities report the overall financial activity of the Authority. The financial activities of the Authority consist only of governmental activities, which are primarily supported by property taxes.

**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

Notes to Financial Statements

June 30, 2004 and 2003

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., economic development) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The Authority has only one function – economic development.

Fund Financial Statements

The fund financial statements provide information about the Department's only fund, the General Fund. The General Fund is the Authority's primary operating fund and accounts for all financial resources of the Authority.

(c) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, consist primarily of property taxes. On an accrual basis, revenues from property taxes are recognized in the fiscal year in which the taxes are intended to finance. Revenue from grants is recognized in the fiscal year in which eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as permitted under accrual accounting. However, principal and interest on general long-term debt are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

(d) Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

Notes to Financial Statements

June 30, 2004 and 2003

(3) Cash and Investments

(a) Cash

At June 30, 2004 and 2003, the book value of the Authority's deposits was \$5,338 and \$0, respectively, with a corresponding bank balance of \$5,338 and \$0, respectively. The deposits were insured by the Federal Deposit Insurance Corporation (FDIC).

(b) Investments

Investments are reported at fair value based on quoted market prices, and are made in accordance with statutes which authorize LDFA to invest in obligations of the U.S. Government, commercial paper, banker's acceptances, and repurchase agreements of certain investment quality. In accordance with GASB Statement No. 3, investments are categorized to give an indication of the level of custodial risk assumed by the entity. All investments of the Authority at June 30, 2004 and 2003 are classified as Category 1 investments. Category 1 includes investments that are insured or registered or for which the Authority or its agent holds the securities in the Authority's name.

The following are LDFA investments:

	<u>2004</u>	<u>2003</u>
Short-term securities:		
U.S. Government obligations, at fair values	\$ 21,895,988	25,600,531
Commercial paper	<u>6,238,755</u>	<u>—</u>
Total short-term securities	<u>\$ 28,134,743</u>	<u>25,600,531</u>

(4) Debt Financing

On September 15, 1998, the Authority issued \$52,205,000 in 1998 Series A Subordinated Bonds, of which \$46,869,964 will be used to pay the City of Detroit for certain costs of public facilities. Principal and interest payments commenced on May 1, 1999 and are payable through May 2021. Interest payments are due semi-annually in May and November.

On September 5, 1997, the Authority issued \$45,865,000 in 1997 Series A Tax Increment Refunding Bonds, with an average interest rate of 5.3%, to refund \$42,000,000 of outstanding bonds issued in 1991. The proceeds were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on all the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability for those bonds has been removed from the financial statements. The amount of defeased debt outstanding at June 30, 2004 is \$37,485,000.

On September 5, 1997, the Authority also issued \$11.5 million in 1997 Series B and Series C Tax Increment Bonds, the proceeds of which will be used to pay the City of Detroit for certain costs of public facilities. Principal payments commenced on July 14, 2000 and are payable through July 2021. Interest payments are due semi-annually in May and November and commenced on November 1, 1997.

**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

Notes to Financial Statements

June 30, 2004 and 2003

The redemption dates and aggregate principal amounts for each such redemption date are as follows:

	<u>Principal amounts</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 2,190,000	4,914,938	7,104,938
2006	3,370,000	4,799,205	8,169,205
2007	3,285,000	4,617,570	7,902,570
2008	3,315,000	4,439,135	7,754,135
2009	3,345,000	4,260,245	7,605,245
2010 – 2014	25,530,000	17,851,718	43,381,718
2015 – 2019	32,840,000	9,767,779	42,607,779
2020 – 2021	14,525,000	1,234,651	15,759,651
Total	<u>\$ 88,400,000</u>	<u>51,885,241</u>	<u>140,285,241</u>

The outstanding indebtedness of the Fund for the bonds was approximately \$88.4 million and \$90.8 million at June 30, 2004 and 2003, respectively. The interest rates on the outstanding fixed rate bonds range from 4.2% to 5.3%. The property taxes of the Authority are pledged for repayment of bonds.

	<u>Balance July 1, 2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2004</u>
Bonds payable	\$ 90,805,000	—	(2,405,000)	88,400,000

	<u>Balance July 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2003</u>
Bonds payable	\$ 93,485,000	—	(2,680,000)	90,805,000

(5) Restricted Assets

Restricted assets are accumulated in accordance with bond ordinance provisions or other restrictive covenants. Reserved fund balance represents restricted assets.

Restricted assets, at fair value, included the following as of June 30:

	<u>2004</u>	<u>2003</u>
Short-term securities	\$ 28,115,874	25,587,231
Accrued interest	18,869	13,300
Total restricted investments	<u>\$ 28,134,743</u>	<u>25,600,531</u>

**CITY OF DETROIT
LOCAL DEVELOPMENT FINANCE AUTHORITY**

Notes to Financial Statements

June 30, 2004 and 2003

(6) Property Tax Revenue

The City's property tax is levied each July 1 of the fiscal year and is payable without penalty either on or before August 31 in full or one-half on or before August 15, with the balance then being payable on or before the following January 15. Property taxes attach as a lien on the property as of July 1 of the year of levy. The City records property tax revenue when available. Available is defined as due and receivable within the current fiscal year and collected within the current fiscal year or expected to be collected within 60 days thereafter.

Property tax revenues consist of the incremental portion of the City's and Wayne County property taxes for each year from a base-year amount and on the taxable value of the personal and real property of the Plant multiplied by an ad valorem tax of 0.0717 mills and 0.0703 mills at June 30, 2003 and 2002, respectively. The City and Wayne County levy and collect the property taxes allocated to the Authority.

Due from other governments of \$1,755,568 at June 30, 2004 represents property taxes due from Wayne County.

(7) Property Tax Payment

In 1994, State of Michigan voters passed Proposal A, which affected school property tax revenue. As a result, Tax Increment Plans are only allowed to capture school tax revenue to the extent necessary to cover existing debt service, and the excess must be returned to the State. An audit of the years ended June 30, 1995 through June 30, 2000 resulted in LDFA refunding \$4,923,956 in property taxes to the City of Detroit. An audit of subsequent years has not been completed as of June 30, 2004. Based on Tax Form 2604, no such liability exists for years subsequent to June 30, 2000.

(8) Explanation of Differences Between Governmental Fund Statements and Governmental-wide Statements

At June 30, 2004, the statement of net assets includes a long-term payable, bonds payable, and accrued interest payable that are not due and payable in the current period and therefore are not reported in the fund financial statements. These amounts are \$3,001,533, \$88,400,000, and \$319,156, respectively, at June 30, 2004. The statement of revenues, expenditures, and changes in fund balance reports the repayment of bonds payable of \$2,405,000 as an expenditure; however, the repayment reduces long-term liabilities in the statement of net assets. In addition, the long-term payable of \$3,001,533 is reported as an expense in the statement of activities.

At June 30, 2003, the statement of net assets includes bonds payable and accrued interest payable that are not due and payable in the current period and therefore are not reported in the fund financial statements. These amounts are \$90,805,000 and \$840,950, respectively, at June 30, 2003. The statement of revenues, expenditures, and changes in fund balance reports the repayment of bonds payable of \$2,680,000 as an expenditure; however, the repayment reduces long-term liabilities in the statement of net assets.